

Press Release

Keshari International LLP

February 13, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	47.05	ACUITE BB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	47.05	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to Rs. 47.05 Cr bank facilities of Keshari International LLP. The outlook is '**Stable**'.

Rating Rationale

The rating takes into cognizance the adequate demand in the north-eastern market for the products manufactured by the firm and the extensive experience of the partners in the plastic moulded industry. The rating also factors in the expected improvement in the working capital intensity followed by increasing efficiency in the debtor collection mechanism. The rating however remains constrained by nascent stage of operations, high inventory holding and susceptibility to volatile input prices.

About the Company

Keshari International LLP is an Assam based limited liability partnership firm incorporated on 20th July, 2018. The firm is engaged in the manufacturing of plastic moulded furniture and household items. The firm has a wide range of injection moulding machines (both indigenous and imported) and a variety of moulds/dyes to manufacture a broad range of plastic moulded furniture and household items. The firm's commercial operations started from 30th June, 2021. The firm sells its products through dealership network in the whole of North-East India. The firm markets its products through three brands namely: Welcome National, Marco and Miracle.

Analytical Approach

Acuite has considered the standalone business & financial risk profiles of KILLP to arrive at the ratings.

Key Rating Drivers

Strengths

Established experience of partners for over two decades in the industry

The key partner, Mr Pawan Kumar Soni, has over two decades of experience in the plastic industry, that shall support the business going forward. Acuite believes that the extensive experience of the partners will continue to benefit the firm going forward, resulting in steady growth in the scale of operations. However, Acuite notes that Keshari International is a limited liability partnership firm and any significant withdrawals from the capital account by partners could impact its network and hence, the capital structure.

Average Financial Risk

The firm's financial risk profile is expected to remain average marked by low networth, high gearing and moderate debt protection metrics over the medium term. The tangible networth of the firm increased to Rs.13.69 Cr in FY2022 as against Rs.9.62 Cr in the previous year due to capital infusion and is expected to improve further due to additional infusion of Rs.3.00 Cr by the partners in the current fiscal. Acuité has treated unsecured loans of Rs.3.02 Cr from the friends and family of the partners as quasi equity as the management has undertaken to maintain this amount in the business over the medium term. The gearing of the company is high and stood at 2.35 times in FY2022 as the firm is in the nascent stage of operations and it is further expected to increase in FY2023 as the firm has availed long term facility from bank of Rs.9.79 Cr for construction of warehouse and purchase of plant and machineries. With this the gearing level is expected to rise to 2.67 times in FY2023. The total planned capex is of ~Rs.13 Cr which is expected to be funded partly through Rs.9.79 Cr of term loan and remaining from partner's contribution. The bank loan of Rs.9.79 Cr has already been sanctioned in FY2023. Further, in the current fiscal, additional Rs.1.00 Cr is extended as unsecured loan from friends and families. The moderate debt protection metrics of the firm is marked by Interest Coverage Ratio at 1.70 times and Debt Service Coverage Ratio at 1.69 times in FY2022. The debt protection metrics of the company is expected to improve in the medium term owing to expected increase in the earnings even though the debt will increase. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.93 times in FY2022. Acuité expects while the new capex initiatives in the current fiscal would increase the debt levels, with stabilization of business and generation of healthy revenues and profits generated from the existing business, the financial risk profile is expected to remain adequately supported over the medium term, followed by no major debt repayment obligations.

Weaknesses

Nascent stage of operation

The commercial production started on June 30, 2021 and the operating income earned in FY2022 stood at Rs.19.02 Cr. Further, the firm has registered a revenue of Rs.26.16 Cr till December 2022. The operating income is expected to improve further due to on-going capacity enhancement plan in FY2023. Acuité believes that going forward, the firm's scale of operation shall improve over the medium term as it's a consumer household product, its demand shall sustain in the market, the firm being the pioneer in the North-East. The operating margin stood at 24.26 per cent in FY2022 and is expected to remain almost at the same level over the medium term.

Working capital intensive nature of operations

The working capital intensive nature of operations is marked high Gross Current Assets (GCA) of 545 days in FY2022, owing to high inventory and debtor period. The inventory period stood at 279 days as on March 31, 2022. The firm maintains high level of inventory to mitigate the price volatility of the raw materials (crude oil derivatives) and are procured in bulk from Delhi, Ahmedabad, Kolkata, etc. resulting in high stock-in-transit. Moreover, the debtor period stood high at 164 days in FY2022 as it was the first year of commercial operations and the firm provided additional credit period to the dealers to penetrate into the market. The general receivable cycle ranges from 60-90 days, which is also evident from the current year debtor's period of 83 days till December 2022 and is expected to remain within the same period in the medium term. Acuité believes that the working capital operations of the firm will remain almost at the same levels over the medium term as evident from improved collection mechanism.

Susceptibility to volatility in prices of raw materials

Operating margin is susceptible to fluctuations in plastic granules which is the primary raw material. The prices of the raw materials are impacted by global demand and are linked to global crude oil prices, making them highly volatile. Any sharp increase in the price will impact profitability. Moreover, due to the ongoing Russia-Ukraine crisis the impact of price hike in crude oil would be the sharpest and have a direct effect on inflation at the retail as well as wholesale level. The fluctuation in the prices is generally passed on to the customers, albeit with a lag. The firm's margins are susceptible to the rise in material costs owing to a time lag

in the pass-through of price hikes to the customers, although the regular price revision mitigates the risk to an extent.

Rating Sensitivities

- Growth in revenue along with improvement in profitability margins
- Stabilisation of their ongoing capex
- Elongation in working capital cycle

Material covenants

None.

Liquidity Position

Adequate

The firm's liquidity position is adequate marked by net cash accruals of Rs.1.87 Cr in FY2022 with no long term debt repayment over the same period. The net cash accruals of the firm is expected to remain healthy post FY2022, adequate to repay the debt obligations. Expected net cash accruals of ~Rs.5.00 Cr should be sufficient against term debt obligation of Rs.1.20 Cr over the medium term. Going forward, Acuité believes that the surplus accruals will act as cushion to the liquidity of the firm. Further, the current ratio stood strong at 2.03 times in FY2022, however, is expected to decline in FY2023 due to increase in long term debt repayment obligation during the period. However, the fund-based limit remained highly utilised at 98.65 per cent for six months ended December 2022. The cash and bank balance stood at Rs.0.10 Cr in FY2022 and is expected to increase gradually as the business will scale up in the medium term. Moreover, the firm's working capital intensive nature of operations is reflected from high Gross Current Assets (GCA) of 545 days in FY2022 but is expected to improve in the current fiscal due to improvement in debtors collection period. Acuité believes that going forward the firm will maintain adequate liquidity position due to expected steady accruals.

Outlook: Stable

Acuité believes that the outlook on the firm will be 'Stable' over the medium term on account of experienced partners, and average financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of deterioration in the firm's financial risk profile and liquidity position or further elongation in its working capital cycle.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	19.02	0.00
PAT	Rs. Cr.	0.08	(0.01)
PAT Margin	(%)	0.43	0.00
Total Debt/Tangible Net Worth	Times	2.35	1.86
PBDIT/Interest	Times	1.70	0.00

Status of non-cooperation with previous CRA (if applicable)

None.

Any other information

None.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE BB- Stable Assigned
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	35.05	ACUITE BB- Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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